

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

Inspector General



October 10, 2002

The Honorable Anthony A. Williams  
Mayor of the District of Columbia  
John A. Wilson Building  
1350 Pennsylvania Ave., N.W., 6<sup>th</sup> Floor  
Washington, D.C. 20004

Dear Mayor Williams:

The purpose of this Management Implication Report (MIR 03-A-01) is to advise you of the results of our research into the security and control of District government checking accounts. This research was performed in response to concerns expressed by Councilmember Jack Evans in a July 15, 2002, letter to this Office. While we concluded that an audit is unnecessary because of significant actions taken by the District's Chief Financial Officer (CFO), all District executives and managers should take into account the implications of weak internal controls on other aspects of District operations and take appropriate steps to avoid unintended outcomes.

**Background**

A former high-ranking District official currently awaits sentencing after being convicted of embezzling funds from a District bank account. The official wrote unauthorized checks to himself, merchants, and others, using money drawn from a District government account set up to deposit funds to the District as part of a nationwide settlement of state lawsuits against tobacco companies. The embezzlement was discovered after the CFO requested that his Office of Internal Audit and Internal Security inquire into actions and activities of the former employee, which led to inquiries at the banking institution where the account was established. Based on the receipt from the banking institution of suspicious activity in this account, a referral was made to the Office of the Inspector General (OIG), which conducted a criminal investigation with the Federal Bureau of Investigation. This investigation led to prosecution of the official.

When the investigation was conducted, there were no strong internal controls on this account to help prevent the type of theft detected. Specifically, the applicable District bank account (a special fund) lacked a requirement for two signatures on checks written to withdraw funds. As a result, the employee was able to use his single-signature authority to steal \$248,105 between June 4, 2001, and January 3, 2002.

## **Scope of Potential Concerns**

Data prepared by the CFO's Office of Finance and Treasury (Treasury), as of August 31, 2002, showed that the District had \$720 million in 452 active bank accounts with 23 different banking institutions. The bulk of the District's cash was controlled in eight main accounts where deposit and withdrawal activities were executed by wire transfers or machine generated checks. Of the 452 active bank accounts, the Treasury identified 276 active accounts, with an estimated aggregate cash balance of \$24 million, that were business-type accounts and had a requirement for dual-signature check writing controls. The remaining 176 active accounts were subject to internal controls more appropriate for the type of banking activity associated with those accounts.

## **Actions Taken**

We found that the CFO took prompt and effective actions to prevent checking account embezzlement from occurring in the future. At the direction of the CFO, the Office of Internal Audit and Internal Security performed a comprehensive review of the management of bank accounts at seven District government organizations. The Office of Internal Audit and Internal Security issued its report on July 10, 2002, which contained 17 findings with appropriate recommendations that addressed internal controls, effective oversight, and security of checking accounts. The chief financial officers of the seven agencies reviewed agreed to implement the internal recommendations, which should significantly strengthen the District's management of bank accounts and its check writing processes. The CFO further strengthened internal controls by issuing a Financial Management and Control Order and by issuing a memorandum to agency heads.

**Financial Management and Control Order.** On August 6, 2002, the CFO issued Financial Management and Control Order No. 01-001. This order implemented specific controls over the establishment and operation of bank accounts with detailed steps governing check writing operations, dual-signature safeguards, segregation of duties, and strict limits on the use of check-signature stamps. The order mandated that agency or department chief financial officers or controllers develop their own written internal control procedures over check processing and submit those controls to the Office of Internal Audit and Internal Security for review and approval before establishing a bank account or processing checks. In summary, the control order contains 14 measures to safeguard District government funds.

**Memorandum to Agency Heads.** On August 7, 2002, the CFO issued a memorandum, "Integrity of Bank Accounts," that applied to all bank accounts and to all employees with bank account signature authority. In that memorandum, he reminded those employees of the public trust placed in them, along with the significant authority and responsibility they have to carry out the financial affairs of the District. He stressed that the new financial control order stated that all checks, not electronically printed, now require 2 signatures and that the previous exclusion of dual-signature requirements on checks written for less than \$1,000 was rescinded. All bank accounts are now subject to unannounced audit,

and addressees were required to sign and return a certificate by August 23, 2002, attesting to the fact that they have read the new guidelines. Anyone who failed to return a signed certificate by the due date, was subject to having his or her signature authority revoked. Treasury officials are following up with agencies that did not respond by the due date. We concluded that the actions taken to date by the District's CFO should significantly strengthen internal controls and make fraud and embezzlement of funds by District employees more difficult to accomplish.

### **Additional Areas of Concern**

Our research disclosed two areas of concern. Our first concern was that the internal audit program and the unannounced audit plan were not finalized when our research concluded. We offered to examine the finalized internal audit program, prior to implementation; the methodology to be used to select bank accounts for unannounced audits; the number of accounts to be audited yearly; and other related risk-management decision factors. Our second area of concern was that procedures put in place that govern existing or future bank accounts may have a potential weakness. Using the District Taxpayer Identification Number, a District employee could surreptitiously open an account with a bank in the District of Columbia, Maryland, or Virginia. The possibility exists that the CFO and the Treasury would be unaware of such activity.

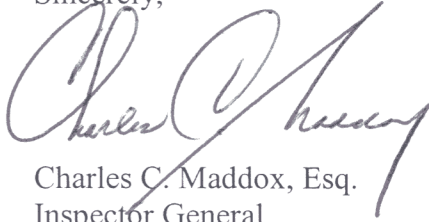
We discussed these concerns with officials of the Treasury and the Office of Internal Audit and Internal Security. We were advised that the audit program and methodology to be used to select accounts for unannounced audits would be shared with the OIG prior to implementation. Regarding the potential internal control weakness, the officials agreed with our assessment. Treasury officials advised that to detect such unauthorized activity, they annually survey banks operating in the District of Columbia, Maryland, and Virginia and ask for specific data and account activity. These surveys and other management actions were instrumental in reducing the number of bank accounts from 1,211 in fiscal year 2000 to the current 452 active accounts. As the number of active accounts is reduced further, Treasury officials expressed a willingness to conduct bank surveys every 6 months to better detect unauthorized account activity and refine their database. The proposed actions satisfy our concerns.

### **Closing**

This Management Implication Report is intended to provide agency heads and financial managers with information to help preclude the occurrence of fraud and better protect District assets. We encourage managers to take prompt, aggressive follow-up action and to apply strict internal controls in order to obtain adequate security of District government checking accounts.

If you have questions about this Management Implication Report, please call me or William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in dark ink, appearing to read "Charles C. Maddox". The signature is fluid and cursive, with the first name "Charles" being more prominent and the last name "Maddox" written in a more compact, cursive style.

Charles C. Maddox, Esq.  
Inspector General

CCM/ws

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